

# MENNONITE BROTHERS FOUNDATION AND AFFILIATE

Consolidated Financial Statements  
With Independent Auditors' Report

December 31, 2019 and 2018

# MENNONITE BROTHERS FOUNDATION

## Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5
Supplemental Information	
Independent Auditors' Report on Supplemental Information	29
Consolidating Statement of Financial Position	30
Consolidating Statement of Activities	31

## **INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Mennonite Brethren Foundation and Affiliate  
Hillsboro, Kansas

We have audited the accompanying consolidated financial statements of Mennonite Brethren Foundation and Affiliate, which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mennonite Brethren Foundation and Affiliate as of December 31, 2019 and 2018, and the changes in its consolidated net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Naperville, Illinois  
April 28, 2020

# MENNONITE BRETHREN FOUNDATION AND AFFILIATE

## Consolidated Statements of Financial Position

	December 31,	
	2019	2018
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 1,446,410	\$ 1,676,269
Investments	104,724,669	60,042,919
Interest receivable	389,750	277,957
Prepaid expenses and other	364,946	583,528
Loans receivable, net	82,039,932	87,179,641
Assets held in trust	20,756,621	19,346,054
Investments held for endowment	39,884,958	33,770,630
Property and equipment, net	2,139,399	2,148,436
	<u>\$ 251,746,685</u>	<u>\$ 205,025,434</u>
<b>LIABILITIES AND NET ASSETS:</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 401,120	\$ 23,507
Earnings payable	39,029	41,680
Investment certificates	74,866,610	64,684,400
Trust liability	18,791,934	17,636,498
Annuities payable	3,184,054	3,309,606
Funds held for others	43,285,818	36,589,231
Pension funds held for others	240,548	252,409
	<u>140,809,113</u>	<u>122,537,331</u>
Net assets:		
Net assets without donor restrictions	<u>72,486,277</u>	<u>50,254,487</u>
Net assets with donor restrictions:		
Restricted by purpose or time	11,445,637	7,106,243
Restricted in perpetuity	27,005,658	25,127,373
	<u>38,451,295</u>	<u>32,233,616</u>
	<u>110,937,572</u>	<u>82,488,103</u>
Total Liabilities and Net Assets	<u>\$ 251,746,685</u>	<u>\$ 205,025,434</u>

See notes to consolidated financial statements

# MENNONITE BRETHREN FOUNDATION AND AFFILIATE

## Consolidated Statements of Activities

Year Ended December 31,

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>SUPPORT AND REVENUE:</b>						
Interest on loans receivable	\$ 4,499,180	\$ -	\$ 4,499,180	\$ 3,990,403	\$ -	\$ 3,990,403
Contributions	19,119,354	418,224	19,537,578	24,550,977	617,438	25,168,415
Fees and other	1,214,799	25,128	1,239,927	875,273	33,685	908,958
Investment income	6,949,001	4,827,551	11,776,552	(464,382)	(1,427,702)	(1,892,084)
Change in value of annuities and trust	848,631	265,599	1,114,230	(847,995)	(162,507)	(1,010,502)
Change in value of deferred gifts	-	411,420	411,420	-	(280,489)	(280,489)
	<u>32,630,965</u>	<u>5,947,922</u>	<u>38,578,887</u>	<u>28,104,276</u>	<u>(1,219,575)</u>	<u>26,884,701</u>
<b>RECLASSIFICATIONS:</b>						
Net assets released from purpose restrictions	1,357,756	(1,357,756)	-	1,327,905	(1,327,905)	-
Transfer per donor stipulation (Note 14)	(1,627,513)	1,627,513	-	(1,690,519)	1,690,519	-
	<u>(269,757)</u>	<u>269,757</u>	<u>-</u>	<u>(362,614)</u>	<u>362,614</u>	<u>-</u>
<b>EXPENSES:</b>						
Program services	8,663,864	-	8,663,864	7,305,840	-	7,305,840
Supporting activities:						
Management and general	1,465,554	-	1,465,554	1,222,068	-	1,222,068
	<u>10,129,418</u>	<u>-</u>	<u>10,129,418</u>	<u>8,527,908</u>	<u>-</u>	<u>8,527,908</u>
Change in Net Assets	<u>22,231,790</u>	<u>6,217,679</u>	<u>28,449,469</u>	<u>19,213,754</u>	<u>(856,961)</u>	<u>18,356,793</u>
Net Assets, Beginning of Year:	<u>50,254,487</u>	<u>32,233,616</u>	<u>82,488,103</u>	<u>31,040,733</u>	<u>33,090,577</u>	<u>64,131,310</u>
Net Assets, End of Year	<u>\$ 72,486,277</u>	<u>\$ 38,451,295</u>	<u>\$ 110,937,572</u>	<u>\$ 50,254,487</u>	<u>\$ 32,233,616</u>	<u>\$ 82,488,103</u>

See notes to consolidated financial statements

# MENNONITE BRETHREN FOUNDATION AND AFFILIATE

## Consolidated Statements of Cash Flows

	Year Ended December 31,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 28,449,469	\$ 18,356,793
Adjustments to reconcile change in net assets to net cash provide (used) by operating activities		
Depreciation	74,744	70,097
Net realized and unrealized (gain) loss on investment	(9,732,048)	3,269,731
Maturities of charitable gift annuities	(259,178)	(48,411)
Charitable gift annuity actuarial change	(181,050)	(99,680)
Change in value of charitable trusts	(255,131)	151,550
Interest reinvested in investment certificate	1,514,111	1,082,254
Donated real estate	(96,000)	(4,835,000)
Changes in:		
Interest receivable	(111,793)	(13,740)
Prepaid expenses and other	218,582	(189,544)
Accounts payable and accrued expense	377,613	(8,633)
Earnings payable	(2,651)	(22,231)
Pension funds held for other	(11,861)	(14,522)
Net Cash Provided by Operating Activities	19,984,807	17,698,664
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investment	60,496,870	56,440,548
Purchase of investment	(95,141,264)	(60,222,527)
Loan advances	(9,496,836)	(23,332,576)
Loan principle received	14,636,545	9,552,406
Gift portion of new charitable gift annuity	(340,324)	(512,545)
Gift portion of new trust agreement	-	(68,610)
Sale of investments for charitable gift annuity payment	447,166	461,909
Purchase of property and equipment	(65,707)	(11,045)
Net Cash Used by Investing Activities	(29,463,550)	(17,692,440)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of investment certificate	31,752,865	13,143,152
Redemptions of investment certificate	(23,084,766)	(13,131,422)
Face value of new annuity and trust agreement	655,000	1,205,000
Payments on charitable gift annuities and trust	(634,151)	(666,697)
Investment income on assets held in trusts	559,936	(128,107)
Net Cash Provided by Financing Activities	9,248,884	421,926
Net Change in Cash and Cash Equivalents	(229,859)	428,150
Cash and Cash Equivalents, Beginning of Year	1,676,269	1,248,119
Cash and Cash Equivalents, End of Year	\$ 1,446,410	\$ 1,676,269
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for interest	\$ 210,599	\$ 136,464
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Matured investment certificates reinvested	\$ 17,189,842	\$ 19,477,641

See notes to consolidated financial statements

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

## 1. NATURE OF ORGANIZATION:

The consolidated financial statements include the financial statements of Mennonite Brethren Foundation (Foundation) and its affiliate, Mennonite Brethren Loan Fund (Fund), which are related through a common Board of Directors. All material intercompany transactions have been eliminated. The consolidated entity is hereinafter referred to as the Organization.

The Foundation is a service agency whose primary mission is to encourage and assist individuals, congregations and ministries in the Mennonite Brethren community with Biblical financial stewardship solutions. Services provided to Mennonite Brethren agencies, institutions, churches and their members include providing planned giving options, providing stewardship education and managing endowment funds. The Foundation is engaged by and has power of attorney for The United States Conference of Mennonite Brethren Churches as agent for the purpose of conducting all their stewardship, financial counseling, financial management and trust programs within the boundaries of the United States of America.

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Fund has been classified as an organization that is not a private foundation under IRC Section 509(a)(3).

The Fund was established by the Foundation as an affiliated organization. The Fund is a service agency whose primary mission is to serve the financial needs of Mennonite Brethren conferences, churches, institutions, and agencies. Activities include loaning funds primarily to Mennonite Brethren organizations for purchase or construction of facilities or for operations and to qualified workers of Mennonite Brethren churches for the purpose of purchasing their residences; raising capital from Mennonite Brethren organizations and individuals; and expressing generosity by making grants from earnings to the Foundation.

The Fund is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Fund has been classified as an organization that is not a private foundation under IRC Section 509(a)(1).

## 2. SIGNIFICANT ACCOUNTING POLICIES:

### BASIS OF ACCOUNTING

The consolidated financial statements of the Organization have been prepared using the accrual basis of accounting. The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America (GAAP), requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include checking accounts and sweep accounts. Other accounts such as money market accounts are considered investments regardless of their original maturity. At December 31, 2019 and 2018, the Foundation's cash balances exceeded federally insured limits by \$1,258,603 and \$1,580,259, respectively. The Foundation has not experienced any losses on these accounts and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

### INVESTMENTS

Investments in equity securities with readily determinable fair values and all debt securities are reported at fair value, which is based on quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Non-publicly traded securities and limited partnership interests are reported at fair value, determined by management using independent appraisals, discounted future cash flows and sales of similar investments. Discounts for lack of liquidity or marketability are taken into consideration when applicable. Investment in some interest bearing deposits are recorded at cost plus accrued interest. Investment income and realized and unrealized gains and losses are included in unrestricted investment income unless a donor or law temporarily or permanently restricts their use.

Notes receivable are reported at amortized cost. Interest is calculated and recognized using the simple interest method. Donated stocks, bonds, mutual funds and government securities are recorded at quoted value or appraised fair value (as determined by appraisal) at date of donation and thereafter carried in accordance with the above policies.

### LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable consist of loans primarily to Mennonite Brethren churches, organizations and qualified church workers, primarily secured by real estate mortgages, although the Fund does make some unsecured loans and some loans that are secured by third-party guarantees and other forms of collateral. Most of the loans are originally set up for a term of ten or fifteen years. Loans are reported at their outstanding principal balances net of loan participation interests sold and allowance for loan losses.

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb probable loan losses. The amount is based upon an analysis of the loan portfolio by management including, but not limited to, review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This process is based on estimates and ultimate losses may vary from current estimates. As changes in estimates occur, adjustments to the level of the allowance are recorded in the provision for potential loan losses in the period in which they become known.

Due to the nature of the relationship with its borrowers, the Fund is willing to make accommodations with borrowers whose payments are not current, so long as such accommodations do not jeopardize the interests of the Fund's investors. A loan is considered impaired when, based upon current information and events, it is probable that the Fund will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans are classified as delinquent when payments are 90 days overdue. Delinquent loans continue to accrue interest. Payments on delinquent and impaired loans are recorded first as interest income and then as a reduction in principal. The accrual of interest income is discontinued when, in management's judgement, the scheduled interest may not be collectible within the stated term of the loan. Interest income is recognized on a cash basis for loans classified as nonaccrual loans, with subsequent payments applied first to interest and fees, if any, and then to principal. Loans classified as nonaccrual loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

### LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES, continued

During 2018, the Fund purchased loan participations originated by Church of God by Faith Financial Solutions, The Baptist Foundation of California, and Christian Financial Resources. All of the loan participations were purchased without recourse and are secured by real property. Loan servicing functions on these loans are retained by the originator.

### PROPERTY AND EQUIPMENT

Property and equipment is recorded at cost if purchased or at fair value at date of gift if donated. Depreciation is provided on a straight-line method over the estimated useful lives of the assets. The Organization capitalizes purchases of assets with a cost of \$2,000 or more and a useful life in excess of one year.

Property and equipment consist of the following:

	December 31,	
	2019	2018
Office building and land	\$ 2,154,218	\$ 2,154,218
Furniture, fixtures and equipment	215,014	149,307
	<u>2,369,232</u>	<u>2,303,525</u>
Less accumulated depreciation	(229,833)	(155,089)
	<u>\$ 2,139,399</u>	<u>\$ 2,148,436</u>

### ASSETS HELD IN TRUST

Assets held in trust consist of charitable remainder trusts with revocable and irrevocable beneficiary interests. Assets held in trust are valued the same as investments. Gains and losses (including realized and unrealized) from all of these assets are reported as a component of change in value of charitable trusts or as a component of trust liability if the trustor has the ability to change the remainderman until the point the trust matures.

### FUNDS HELD FOR OTHERS

Funds held for others consist of those assets held on behalf of other organizations. These assets are valued the same as investments and comingled with other Organization assets. All activity related to these assets is recorded directly to assets and a corresponding liability account as they are accounted for as agency funds.

### ANNUITIES PAYABLE

Gift annuities are recognized as income at the date of the gift, net of actuarial liability, which is the present value of the annuity payments based on the life expectancy of the donor and a discount rate of 6 percent. Annually, an adjustment is made to income and the actuarial liability to record the actuarial gain or loss due to recomputation of the liability based upon the revised life expectancy. Additional income is recognized upon termination of the annuity contract. Amounts received from annuity contracts are invested with other pooled investments which include money market accounts and loans receivable. Total annuity funds invested are \$8,233,913 and \$7,160,043 at December 31, 2019 and 2018, respectively, including \$2,511,528 and \$2,242,758, respectively, held in trust for California annuitants.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

### TRUST LIABILITY

Trust liability includes irrevocable charitable remainder unitrusts and represents the present value of future cash flows to income beneficiaries and the portion of trusts due other remaindermen. The present value of future cash flows to income beneficiaries is computed using published mortality rate tables adopted by the IRS at an assumed rate of return based on the current applicable federal rate to determine the present value of the actuarially determined liability. The resulting actuarial gain or loss is recorded as a component of the change in value for agreements where the Foundation has an irrevocable interest. If the Foundation does not have an irrevocable interest, the resulting actuarial gain or loss is recorded directly to the due other remaindermen liability. At the death of the lifetime beneficiaries, the trusts provide for the distribution of assets to the Foundation.

### CLASSES OF NET ASSETS

Information regarding financial position and activities is reported in three classes of net assets based on the existence of, or absence of, donor-imposed restrictions. Net assets are classified as follows:

*Net assets without donor restrictions* are those currently available for Organization purposes under the direction of the Board, those designated by the Board for specific use and those resources invested in property and equipment.

*Net assets with donor restrictions* are those contributed with donor stipulations for specific operating purposes or programs, those with time restrictions, undistributed endowment investment income, or those not currently available for use until commitments regarding their use have been fulfilled or lifetime beneficiary interests have ceased. These also include donor restrictions requiring the net assets be held in perpetuity or for a specified term with investment return available for use with or without donor restrictions.

### SUPPORT, REVENUE, EXPENSES AND DISTRIBUTIONS

Contributions to gift agreements, including donor advised funds, are reported as income when made, which may be when cash is received, unconditional promises are made or ownership of donated assets is transferred. Fees and other income includes management fees, rent and other miscellaneous income and is recognized as earned. Noncash gifts are recorded at their estimated fair market value at the date of donation. Investment income is recognized when earned. The Organization reports gifts of cash and other assets as support with donor restriction if they are received with donor stipulations that limit the use of the donated amounts. When a stipulated time restriction ends or purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions.

Grants to qualified organizations in accordance with various gift agreements are recognized when the grants are approved by the Foundation or upon maturity of the agreement at the donor's death. Earnings payable represent endowment distributions and trust payments owed but unpaid at year end. Operating expenses are recognized when incurred in accordance with the accrual basis of accounting and include certain costs associated with administration of gift agreements. The costs of providing various program services and supporting activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

## 2. SIGNIFICANT ACCOUNTING POLICIES, continued:

### SUPPORT, REVENUE, EXPENSES AND DISTRIBUTIONS, continued

Advertising costs are expensed as incurred and totaled \$62,944 and \$78,562 for the year ended December 31, 2019 and 2018, respectively.

### RECENTLY ISSUED ACCOUNTING STANDARDS

In 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. The Foundation adopted the provisions of this new standard during the year ended December 31, 2019. The new standard applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. Adoption of this standard had no effect on change in net assets or net assets in total.

## 3. INVESTMENTS:

Investments consist of the following:

	December 31,	
	2019	2018
At fair value:		
Money market funds	\$ 13,440,964	\$ 9,240,405
Certificates of deposit	2,401,907	792,199
U.S. Government securities	7,734,877	4,731,695
Corporate Bonds	17,334,867	13,198,755
Equities	61,104,478	34,176,025
Mutual funds	34,774,074	25,004,153
Mortgage pools	8,057,597	6,167,629
CMO and asset backed securities	1,237,158	770,533
Non-publicly traded securities and limited partnership interests	374,237	452,222
Real estate	3,548,190	8,073,244
Commodities	280,500	339,582
Limited partnerships	2,448,996	2,249,882
	152,737,845	105,196,324
At cost:		
Denominational loan fund certificates	8,342,497	6,234,790
At contract value:		
Cash value life insurance	695,938	684,210
At other than fair value:		
Loans receivable	3,589,968	1,044,279
	165,366,248	113,159,603
Less:		
Investments held for endowment	(39,884,958)	(33,770,630)
Assets held in trust	(20,756,621)	(19,346,054)
	\$104,724,669	\$ 60,042,919

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

3. INVESTMENTS, continued:

Investment income consists of the following for the years ended:

	December 31,	
	2019	2018
Interest and dividend income	\$ 2,490,155	\$ 1,725,487
Net realized and unrealized losses	9,732,048	(3,269,731)
Investment management and custodial fees	(445,651)	(347,840)
	\$ 11,776,552	\$ (1,892,084)

4. LOANS RECEIVABLE, NET:

A summary of loans receivable classified by interest rates is as follows:

	December 31,	
	2019	2018
4.5% or less	\$ 11,652,636	\$ 12,490,782
over 4.5 to 5.5%	60,806,592	74,728,003
over 5.5 to 6.5%	11,341,269	2,678,468
over 6.5 to 6.75%	957,047	-
	84,757,544	89,897,253
Allowance for losses	(2,717,612)	(2,717,612)
	\$ 82,039,932	\$ 87,179,641
Allowance for losses:		
Beginning of year	\$ 2,717,612	\$ 2,717,612
Write-downs	-	-
End of Year	\$ 2,717,612	\$ 2,717,612

The Fund evaluates loans for impairment on an individual basis if the loan is more than 90 days delinquent. These loans are then given a specific allowance based on the estimated net realizable value of property serving as collateral. All other loans are evaluated for allowance on a collective basis. At December 31, 2019, one loan receivable totaling \$1,551,221, with an allowance totaling \$42,659, was evaluated individually for impairment. All other loans were collectively evaluated and no impairment was noted.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

4. LOANS RECEIVABLE, NET, continued:

Status for performing and nonperforming real estate loans is based on payment activity for the year. Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when days delinquent is greater than 60 days in the previous month. The following table presents credit exposure by performance status:

	December 31,	
	2019	2018
Performing	\$ 83,206,323	\$ 89,897,253
Nonperforming	1,551,221	-
	\$ 84,757,544	\$ 89,897,253

An aging analysis of the principal of past due loans receivable is as follows:

	December 31,	
	2019	2018
Past due:		
Greater than 90 days	\$ 1,551,221	\$ -
Current	83,206,323	89,897,253
	\$ 84,757,544	\$ 89,897,253

At December 31, 2019, the Fund had one delinquent loan with a principal balance of \$1,551,221. The amount of interest and principal payments owing on this delinquent loan was \$59,390. Interest income recognized on this delinquent loan during 2019 was \$97,070. The Fund believes that the collateral related to the delinquent loan will be sufficient to repay the loan balance.

The delinquent loan totaling \$1,551,221 was 1.8% of the Fund's aggregate principal balance of total loans outstanding at December 31, 2019.

Loans receivable at December 31, 2019, will mature as follows:

Year	Amount
2020	\$ 1,721,825
2021	2,222,931
2022	7,288,838
2023	7,586,915
2024	9,281,328
Thereafter	56,655,707
	\$ 84,757,544

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

4. LOANS RECEIVABLE, NET, continued:

As of December 31, 2019, the Fund had no unsecured loans and three loans totaling \$1,750,715 secured by other assets. The loans receivable earn interest at fixed or variable rates which ranged from 2.60 percent to 6.75 percent at December 31, 2019.

The Fund had 153 loans at December 31, 2019. Although the Fund has no geographic restrictions within the United States on where loans are made, aggregate loans in excess of five percent of total balances at December 31, 2019, were located in the following states:

State	Number of Loans	Principal Outstanding	Percent of Loan Portfolio
California	54	\$ 19,244,300	23%
Washington	16	13,437,333	16%
Utah	5	9,013,562	11%
Colorado	7	8,111,964	10%
Oregon	8	7,793,111	9%
Arizona	8	5,389,005	6%
	98	\$ 62,989,275	75%

At December 31, 2019, the Fund had 122 borrowers with balances as follows:

Loan Balance	Number of Borrowers	Principal Outstanding	Percent of Loan Portfolio
\$0 - \$500,000	79	\$ 13,372,778	16%
\$ 500,001 - \$1,000,000	17	12,939,180	15%
\$1,000,001 - \$1,500,000	9	11,061,917	13%
\$1,500,001 - \$2,000,000	4	6,686,162	8%
\$2,000,001 - \$2,500,000	7	16,409,485	19%
\$2,500,001 - \$3,000,000	3	8,275,251	10%
Over \$3,000,000	3	16,012,771	19%
	122	\$ 84,757,544	100%

Although the Fund has a diverse portfolio of loans to Mennonite Brethren churches, organizations and qualified church workers, concentrations of credit risk exist with respect to individually significant borrowers, which are defined as those exceeding five percent of the total loan portfolio. At December 31, 2019, there was one individually significant borrower whose balance totaled \$8,690,318.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

5. ASSETS HELD IN TRUST:

The Organization administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for the Organization's use. The portion of the trust attributable to the future interest of the Organization is recorded in the consolidated statements of activities as temporarily restricted contributions in the period the trust is established. Assets held in the charitable remainder trusts are recorded at fair value in the Organization's consolidated statements of financial position. On an annual basis, the Organization revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. The present value of the estimated future payments is calculated using a stated contract rate and applicable mortality tables.

The assets of the remainder trust funds are invested in the following:

	December 31,	
	2019	2018
Money market funds	\$ 323,536	\$ 345,812
Equities, equity and bond funds	19,848,914	13,749,471
Corporate notes	29,501	25,747
Real estate	187,817	4,856,833
Cash Value life insurance	289,562	284,566
Loans receivable	77,291	83,625
	\$ 20,756,621	\$ 19,346,054

The above amounts are included as assets of the Foundation.

Liabilities and net assets held in trust consist of:

	December 31,	
Irrevocable charitable beneficiary - payment liability	\$ 1,360,181	\$ 1,242,361
Revocable charitable beneficiary (liability equals assets)	17,431,754	16,394,138
	18,791,935	17,636,499
Net assets with donor restrictions for irrevocable charitable remainder trusts	1,964,686	1,709,555
	\$ 20,756,621	\$ 19,346,054

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

## 6. CHANGE IN VALUE OF CHARITABLE GIFT ANNUITIES AND TRUSTS:

Change in value consists of the following for the years ended:

	December 31,	
	2019	2018
<u>Change in Value of Charitable Gift Annuities:</u>		
Interest and dividends	\$ 189,555	\$ 164,998
Net realized and unrealized gains (losses)	946,781	(391,579)
Actuarial change	181,050	99,680
Maturities	259,178	48,411
Transfer to endowment upon maturity of annuity	(48,529)	(120,261)
Payments and distributions (including miscellaneous expenses)	(668,936)	(660,201)
	859,099	(858,952)
 <u>Change in Value of Charitable Trusts (Irrevocable Beneficiary):</u>		
Interest and dividends	79,524	72,882
Net realized and unrealized losses	480,412	(200,989)
Actuarial change	(117,820)	181,345
Payments (including miscellaneous expenses)	(186,985)	(204,788)
	255,131	(151,550)
 Total change in value of annuities and trusts	\$ 1,114,230	\$ (1,010,502)

## 7. INVESTMENT CERTIFICATES:

The Fund issues certificates, which are the Fund's unsecured debt securities, to Mennonite Brethren churches, organizations and individuals that invest in the Fund. Certificates are redeemable at the end of the terms ranging from one to five years or on demand and earn interest at variable rates (from 0.5% to 3.15% at December 31, 2019). The Fund was indebted on investment certificates as summarized below:

	December 31,	
	2019	2018
Demand:		
Advantage	\$ 11,757,599	\$ 8,509,853
Demand	3,917,989	5,789,207
	15,675,588	14,299,060
Term:		
One year	11,373,615	9,639,175
Two year	11,134,614	10,209,382
Three year	6,883,974	5,321,605
Four year	1,376,060	866,887
Five year	28,422,759	24,348,291
	59,191,022	50,385,340
	\$ 74,866,610	\$ 64,684,400

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

7. INVESTMENT CERTIFICATES, continued:

Amounts are presented in the schedule below based on the year in which the investment certificates are scheduled to mature. Notwithstanding the foregoing, the Fund will pay any redemption of an investor's demand certificate within 30 days after receiving the request, although the Fund generally can honor requests much more quickly; term certificates may not be redeemed without the Fund's consent before they mature and any redemptions prior to maturity are subject to substantial penalties.

<u>Year of Maturity</u>	<u>Amount</u>
Demand	\$ 15,675,588
2020	23,766,762
2021	15,255,594
2022	8,979,979
2023	4,962,533
2024	<u>6,226,154</u>
	<u><u>\$ 74,866,610</u></u>

At December 31, 2019, the Fund had a total of 208 investor households with aggregate investment certificate balances of \$100,000 or more as follows:

<u>Certificate Balances</u>	<u>Number of Investor Households</u>	<u>Aggregate Balances</u>	<u>Percent of Certificate Balances Outstanding</u>
\$100,000 - \$200,000	107	\$ 14,434,232	19%
\$200,001 - \$300,000	44	10,693,015	14%
\$300,001 - \$500,000	34	13,173,353	18%
Greater than \$500,000	21	21,202,790	28%
Related parties (Note 15)	2	893,957	1%
	<u>208</u>	<u>\$ 60,397,347</u>	<u>80%</u>

At December 31, 2019, the Fund had 1,619 certificates total, with the primary concentrations by state as

<u>State</u>	<u>Number of Certificates</u>	<u>Aggregate Investment Certificate Balances</u>	<u>Percent of Certificate Balances Outstanding</u>
California	460	\$ 28,696,043	38%
Kansas	675	28,351,052	38%
Oklahoma	214	8,161,765	11%
	<u>1,349</u>	<u>\$ 65,208,860</u>	<u>87%</u>

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

8. PENSION FUNDS HELD FOR OTHERS:

Pension funds held for others represents funds held by the Foundation for Multiply (an affiliated entity). The Organization holds these funds for Multiply for purposes of making pension disbursements on its behalf. A corresponding amount is included in assets which offsets this liability (accounted for as agency funds).

9. NET ASSETS:

Net assets consist of:

	December, 31	
	2019	2018
Net Assets without donor restrictions:		
Undesignated	\$ 57,971,532	\$ 36,891,340
Capital adequacy reserve	6,101,223	5,543,042
Board designated endowment	5,780,986	5,088,030
Board designated reserve	2,632,536	2,732,075
Total net assets without donor restrictions	72,486,277	50,254,487
Net assets with donor restrictions:		
Subject to expenditure for specified purpose:		
Scholarships and grant	228,115	103,205
Subject to the passage of time:		
Unitrust-restricted beneficiaries	1,964,686	1,709,555
Life estates	2,154,522	1,738,256
	4,119,208	3,447,811
Subject to Foundation's spending policy and appropriations:		
Accumulated gains	4,349,116	1,146,788
Term endowments	2,749,198	2,408,439
Endowment funds restricted in perpetuity	26,966,737	25,094,074
	34,065,051	28,649,301
Subject to restriction in perpetuity:		
Annuity Funds-restricted for endowment	38,921	33,299
Total net assets with donor restrictions	38,451,295	32,233,616
Total net assets	\$110,937,572	\$ 82,488,103

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements December 31, 2019 and 2018

### 9. NET ASSETS, continued:

The Foundation's governing board through specific action has created self-imposed limits on net assets without donor restrictions. The board has set aside \$8,409,233 and \$7,820,105 for the following purposes as of December 31, 2019 and 2018, respectively. These net assets can be drawn upon if the board approves such action.

	December, 31	
	2019	2018
For investment as a board-designated endowment	\$ 5,780,986	\$ 5,088,030
Operating reserves	2,579,260	2,692,825
For special projects	53,276	39,250
	<u>\$ 8,413,522</u>	<u>\$ 7,820,105</u>

### 10. CONCENTRATION OF CREDIT RISK:

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash, cash equivalents, marketable securities and loans receivable. From time to time, cash deposits are in excess of FDIC insured limits; while management is mindful of the FDIC limits, they realize that cash balances generated in ordinary course of business will generally exceed FDIC insured limits. At December 31, 2019, approximately \$144.5 million of the Organization's investment portfolio was held at the full service brokerage firm, Charles Schwab & Co., Inc. The Organization has not experienced any losses on these accounts and does not believe it is exposed to any significant risk of loss related to these.

Concentrations of credit risk with respect to loans receivable are limited to a certain extent by the secured position of the Fund in most instruments, the number of organizations comprising the Fund's loans receivable base and their dispersion across geographic areas, and the Fund's policy of limiting the maximum loan amount to any one borrower. As described in Note 4, the Fund's policy is to limit loans primarily to Mennonite Brethren churches, organizations and qualified church workers. At December 31, 2019, approximately 66% of the loans were to qualified organizations, 11% were to qualified church workers and 23% were to other organizations. Loans made by the Fund are typically secured by first mortgages and are normally limited to 75% of the aggregate cost or value of the property securing the loan. As described in Note 4, the Fund also had \$1,750,715 in unsecured loans, loans secured by third party guarantees or other sources. While the Fund may be exposed to credit losses in the event of nonperformance by the above contracting parties, management has established an allowance for potential loan losses, which it believes is adequate to cover any such losses.

A substantial portion of the investment certificates issued by the Fund are demand instruments or will be maturing within the next two years. In addition, all demand investment certificates are payable upon 30 days written notice subject to availability of funds. The Fund has insufficient liquid assets to satisfy repayment of this amount. Management anticipates, similar to past history, that a substantial portion of these certificates will be reinvested or rolled over into new certificates with the Fund.

### 11. RETIREMENT PLAN:

The Organization contributes 6% of annual compensation for all eligible employees working 20 hours or more a week to a 403(b) plan sponsored by the Foundation. Employer contributions totaled \$58,473 and \$45,650 during 2019 and 2018, respectively.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

## 12. RELATED PARTY TRANSACTIONS:

Some of the Organization's board members also serve on the board of the U.S. Conference of Mennonite Brethren Churches (U.S. Conference), boards of the district conferences and boards of Mennonite Brethren educational institutions. From time to time the Fund may have loans or certificates outstanding with the U.S. Conference, district conferences, or Mennonite Brethren educational institutions.

The Fund offers a Home Loan program in which loans are available for the purchase or construction of primary residences in the United States for qualified church, district and conference employees. In addition, it is available to the Fund's staff as a benefit of employment. Board members, who are otherwise eligible, may participate in the Home Loan program. At December 31, 2019, the Fund had three loans with an outstanding combined balance of \$356,719, with a weighted average interest rate of 3.44%, with three officers. As of that same date, the Fund had two loans outstanding to two employees with an outstanding combined balance of \$145,544 with an interest rate of 3.41%. At December 31, 2019, the Fund had seven certificates totaling \$649,528, with an average interest rate of 1.57%, to two Mennonite Brethren Conferences who have board members also on the Fund's board. The fund also has four certificates totaling \$307,595 with an interest rate of 1.00%, to an educational institution who has a board member also on the Fund's board. At December 31, 2019, the Fund also had two line of credit loan commitments to Mennonite Brethren Conferences for a total of \$500,000 with an interest rate of 5.2%, of which both are unfunded.

At December 31, 2018, the Fund had three loans with an outstanding combined balance of \$373,221, with a weighted average interest rate of 3.44%, with three officers. As of that same date, the Fund had two loans outstanding to two employees with an outstanding combined balance of \$152,170 with an interest rate of 3.40%. At December 31, 2018, the Fund had three certificates totaling \$320,919, with an interest rate of 0.85%, to two Mennonite Brethren Conferences who have board members also on the Fund's board. The fund also has four certificates totaling \$284,168 with an interest rate of 0.85%, to an educational institution who has a board member also on the Fund's board. At December 31, 2018, the Fund also had two line of credit loan commitments to Mennonite Brethren Conferences for a total of \$500,000 with an interest rate of 4.95%, of which both are unfunded.

During 2019 and 2018, the Foundation also made a grant totaling \$180,000 and \$186,369, respectively, to the U.S. Conference.

## 13. LOAN COMMITMENTS:

In the normal course of business, the Fund makes commitments to extend loans to meet the financing needs of Mennonite Brethren churches, organizations and qualified church workers. At December 31, 2019, the Fund had outstanding commitments of approximately \$31,649,000 to fund construction in progress, undrawn lines of credit and real estate mortgages.

Outstanding commitments are letters that outline the terms and conditions of the mortgage to be granted. The total commitment amount does not necessarily represent future cash requirements since construction costs may not total the amount the Fund agreed to lend or the commitments may expire without being fully drawn upon. The Fund's exposure to credit loss, in the event of nonperformance by the churches to which it has extended commitments, is limited to the amount of the commitment. The Fund controls the credit risk of its commitments through credit approvals, limits and monitoring procedures.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

## 14. ENDOWMENT FUNDS:

The Foundation's endowment consists of 151 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets restricted in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets restricted in perpetuity is classified as net assets restricted by purpose or time until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulated donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

14. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of December 31, 2019:

	With Donor Restrictions				Total Funds
	Without Donor Restrictions	Original Gift Amount	Accumulated Gains (Losses) and Other	Total With Donor Restrictions	
Donor-restricted funds	\$ -	\$ 27,005,658	\$ 7,098,314	\$ 34,103,972	\$ 34,103,972
Board-designated funds	5,780,986	-	-	-	5,780,986
<b>Total funds</b>	<b>\$ 5,780,986</b>	<b>\$ 27,005,658</b>	<b>\$ 7,098,314</b>	<b>\$ 34,103,972</b>	<b>\$ 39,884,958</b>

Changes in endowment net assets for year ended December 31, 2019:

	With Donor Restrictions				Total Funds
	Without Donor Restrictions	Original Gift Amount	Accumulated Gains (Losses) and Other	Total With Donor Restrictions	
Endowment net assets, beginning of year	\$ 5,088,030	\$ 25,127,373	\$ 3,555,227	\$ 28,682,600	\$ 33,770,630
Investment return, net	872,334	136,804	4,685,229	4,822,033	5,694,367
Contributions	-	90,864	5,070	95,934	95,934
Change in value of annuities	-	5,622	-	5,622	5,622
Rental Income	-	-	25,128	25,128	25,128
Amount appropriated for expenditures	(156,962)	-	(1,154,858)	(1,154,858)	(1,311,820)
Transfers	(22,416)	1,646,265	(18,752)	1,627,513	1,605,097
Reclassification	-	(1,270)	1,270	-	-
	<u>692,956</u>	<u>1,878,285</u>	<u>3,543,087</u>	<u>5,421,372</u>	<u>6,114,328</u>
<b>Endowment net assets, end of year</b>	<b>\$ 5,780,986</b>	<b>\$ 27,005,658</b>	<b>\$ 7,098,314</b>	<b>\$ 34,103,972</b>	<b>\$ 39,884,958</b>

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

14. ENDOWMENT FUNDS, continued:

Endowment net asset composition by type of fund as of December 31, 2018:

	With Donor Restrictions				Total Funds
	Without Donor Restrictions	Original Gift Amount	Accumulated Gains (Losses) and Other	Total With Donor Restrictions	
Donor-restricted funds	\$ -	\$ 25,127,373	\$ 3,555,227	\$ 28,682,600	\$ 28,682,600
Board-designated funds	5,088,030	-	-	-	5,088,030
<b>Total funds</b>	<b>\$ 5,088,030</b>	<b>\$ 25,127,373</b>	<b>\$ 3,555,227</b>	<b>\$ 28,682,600</b>	<b>\$ 33,770,630</b>

Changes in endowment net assets for year ended December 31, 2018:

	With Donor Restrictions				Total Funds
	Without Donor Restrictions	Original Gift Amount	Accumulated Gains (Losses) and Other	Total With Donor Restrictions	
Endowment net assets, beginning of year	\$ 5,542,878	\$ 23,514,214	\$ 5,949,438	\$ 29,463,652	\$ 35,006,530
Investment return, net	(262,612)	(55,200)	(1,394,485)	(1,449,685)	(1,712,297)
Contributions	-	58,393	-	58,393	58,393
Change in value of annuities	-	(5,333)	-	(5,333)	(5,333)
Rental Income	-	-	33,685	33,685	33,685
Amount appropriated for expenditures	(160,599)	-	(1,108,631)	(1,108,631)	(1,269,230)
Transfers	(31,637)	1,673,571	16,948	1,690,519	1,658,882
Reclassification	-	(58,272)	58,272	-	-
	<u>(454,848)</u>	<u>1,613,159</u>	<u>(2,394,211)</u>	<u>(781,052)</u>	<u>(1,235,900)</u>
<b>Endowment net assets, end of year</b>	<b>\$ 5,088,030</b>	<b>\$ 25,127,373</b>	<b>\$ 3,555,227</b>	<b>\$ 28,682,600</b>	<b>\$ 33,770,630</b>

*Funds with Deficiencies:*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2019. As of December 31, 2018, deficiencies of this nature existed in 39 donor-restricted endowment funds, which together have an original gift value of \$4,625,175, a current fair value of \$4,435,716, and a deficiency of \$189,459. These deficiencies resulted from unfavorable market conditions.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

## 14. ENDOWMENT FUNDS, continued:

### *Return Objectives and Risk Parameters:*

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board –designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce an inflation adjusted income stream to grow the corpus above the inflation rate. The Foundation expects its endowment funds, over time, to provide an average rate of return of between 6.5% and 9% annually. Actual returns in any given year may vary from this amount.

### *Strategies Employed for Achieving Objectives:*

To satisfy its long-term rate-of-return objectives, The Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

### *Spending Policy and How the Investment Objectives Related to Spending Policy:*

The Foundation has a policy of appropriating for distribution each year 4% percent of its endowment fund's average fair value over the 3 previous calendar year ends. In establishing this policy, the Foundation considered long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow at an average of 1.75% to 4.25% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns.

## 15. FAIR VALUE MEASUREMENTS AND DISCLOSURES:

The Organization uses appropriate valuation techniques to determine fair value based on inputs available. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs were not available. The valuations for each of these levels are determined as follows:

Level 1 - Quoted prices for identical instruments traded in active markets.

Level 2 - Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets or model-based valuations where significant assumptions are observable.

Level 3 - Model-based techniques using significant assumptions that are not observable. These unobservable assumptions reflect estimates of assumptions that market participants would use.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements December 31, 2019 and 2018

### 15. FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued:

The table below presents the level within the fair value hierarchy at which investments are measured at December 31, 2019:

	Total	Level 1	Level 2	Level 3
Corporate Bonds				
AAA	\$ 189,213	\$ -	\$ 189,213	\$ -
AA	945,200	-	945,200	-
A	5,876,905	-	5,876,905	-
BBB	10,133,445	-	10,133,445	-
BB+ or below/not rated	190,104	-	190,104	-
	<u>17,334,867</u>	<u>-</u>	<u>17,334,867</u>	<u>-</u>
Equities				
Communication services	4,590,380	4,590,380	-	-
Consumer goods	7,953,741	7,953,741	-	-
Energy	3,562,558	3,562,558	-	-
Financial	7,750,665	7,750,665	-	-
Healthcare	4,286,786	4,286,786	-	-
Industrials	7,368,782	7,368,782	-	-
Information technology	9,361,356	9,361,356	-	-
Materials	2,462,986	2,462,986	-	-
Real estate	10,605,356	10,605,356	-	-
Utilities	3,161,868	3,161,868	-	-
	<u>61,104,478</u>	<u>61,104,478</u>	<u>-</u>	<u>-</u>
Mutual Funds				
Foreign large blend	7,133,807	7,133,807	-	-
Foreign large value	31,052	31,052	-	-
Foreign small blend	5,982,212	5,982,212	-	-
Diversified emerging	5,520,349	5,520,349	-	-
Small value	94,990	94,990	-	-
Small growth	5,907,897	5,907,897	-	-
Medium value	12,891	12,891	-	-
Large blend	708,092	708,092	-	-
Large value	284,524	284,524	-	-
Large growth	288,739	288,739	-	-
Real estate	144,172	144,172	-	-
Bond funds	8,665,349	8,665,349	-	-
	<u>34,774,074</u>	<u>34,774,074</u>	<u>-</u>	<u>-</u>
Money market funds	13,440,964	13,440,964	-	-
Certificates of deposit	2,401,907	-	2,401,907	-
U.S. Government securities	7,734,877	-	7,734,877	-
Mortgage pool	8,057,597	-	8,057,597	-
CMO and asset backed securities	1,237,158	-	1,237,158	-
Non-publicly traded securities and limited partnership interests	374,237	-	374,237	-
Real estate	3,548,190	-	3,548,190	-
Commodities	280,500	-	280,500	-
Limited partnership	2,448,996	-	-	2,448,996
	<u>39,524,426</u>	<u>13,440,964</u>	<u>23,634,466</u>	<u>2,448,996</u>
	<u>\$ 152,737,845</u>	<u>\$ 109,319,516</u>	<u>\$ 40,969,333</u>	<u>\$ 2,448,996</u>

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements December 31, 2019 and 2018

### 15. FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued:

The table below presents the level within the fair value hierarchy at which investments are measured at December 31, 2018:

	Total	Level 1	Level 2	Level 3
Corporate Bonds				
AAA	\$ 83,863	\$ -	\$ 83,863	\$ -
AA	609,892	-	609,892	-
A	3,992,917	-	3,992,917	-
BBB	8,249,179	-	8,249,179	-
BB+ or below	262,904	-	262,904	-
	<u>13,198,755</u>	<u>-</u>	<u>13,198,755</u>	<u>-</u>
Equities				
Communication services	2,405,066	2,405,066	-	-
Consumer goods	5,464,266	5,464,266	-	-
Energy	2,507,034	2,507,034	-	-
Financial	5,675,244	5,675,244	-	-
Healthcare	2,851,168	2,851,168	-	-
Industrials	4,200,333	4,200,333	-	-
Information technology	5,443,651	5,443,651	-	-
Materials	1,457,778	1,457,778	-	-
Real estate	1,412,718	1,412,718	-	-
Utilities	2,758,767	2,758,767	-	-
	<u>34,176,025</u>	<u>34,176,025</u>	<u>-</u>	<u>-</u>
Mutual Funds				
Foreign large blend	4,648,617	4,648,617	-	-
Foreign large value	23,561	23,561	-	-
Foreign small blend	3,279,080	3,279,080	-	-
Diversified emerging	3,451,200	3,451,200	-	-
Small value	76,078	76,078	-	-
Small growth	3,629,321	3,629,321	-	-
Medium value	11,789	11,789	-	-
Large blend	474,848	474,848	-	-
Large value	233,317	233,317	-	-
Large growth	235,480	235,480	-	-
Real estate	5,932,282	5,932,282	-	-
Bond funds	3,008,580	3,008,580	-	-
	<u>25,004,153</u>	<u>25,004,153</u>	<u>-</u>	<u>-</u>
Money market funds	9,240,405	9,240,405	-	-
Certificates of deposit	792,199	-	792,199	-
U.S. Government securities	4,731,695	-	4,731,695	-
Mortgage pool	6,167,629	-	6,167,629	-
CMO and asset backed securities	770,533	-	770,533	-
Non-publicly traded securities and limited partnership interests	452,222	-	452,222	-
Real estate	8,073,244	-	8,073,244	-
Commodities	339,582	-	339,582	-
Limited partnership	2,249,882	-	-	2,249,882
	<u>32,817,391</u>	<u>9,240,405</u>	<u>21,327,104</u>	<u>2,249,882</u>
	<u>\$ 105,196,324</u>	<u>\$ 68,420,583</u>	<u>\$ 34,525,859</u>	<u>\$ 2,249,882</u>

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Notes to Consolidated Financial Statements December 31, 2019 and 2018

### 15. FAIR VALUE MEASUREMENTS AND DISCLOSURES, continued:

The following table provides further details for the Level 3 fair value measurements for the years ended December 31, 2019 and 2018.

	2019	2018
Balance - January 1	\$ 2,249,882	\$ 2,078,055
Purchases	220,242	110,381
Realized and unrealized (losses) gains	(21,128)	61,446
 Balances - December 31	 \$ 2,448,996	 \$ 2,249,882

Fair value for the limited partnership is determined by the Fund's general partner. The general partner's evaluation of fair value is based on the most recent available fair value information provided to the partnership by the portfolio funds. Although fair values are based on inputs believed to represent assumptions that market participants would use in determining the fair value, the resulting fair values include significant unobservable inputs. Because of the inherent uncertainty of valuation of such nonmarketable investments, those estimated fair values may differ significantly from the fair value that would have been used, had a ready market for the investment existed. There are no lockup restrictions, and the Organization's interest in the fund is redeemable at the end of any month on 15 days notice. There were no unfunded commitments as of December 31, 2019 and 2018.

### 16. FUNCTIONAL ALLOCATION OF EXPENSES:

The consolidated financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the organization, which are primarily allocated on estimates of time and effort. The following table presents the functional allocation of expenses for the year ended December 31, 2019:

	For the Year Ended December 31, 2019		
	Program Services	General and Administrative	Total
Interest on investment certificates	\$ 2,812,157	\$ -	\$ 2,812,157
Salaries and benefits	896,252	959,117	1,855,369
Distributions to others	4,757,070	-	4,757,070
Professional fees	33,960	154,937	188,897
Depreciation	12,953	61,791	74,744
Travel	30,705	33,371	64,076
Office expenses and other	120,767	256,338	377,105
 Total	 \$ 8,663,864	 \$ 1,465,554	 \$ 10,129,418

# Mennonite Brethren Foundation and Affiliate

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

16. FUNCTIONAL ALLOCATION OF EXPENSES, continued:

The following table presents the functional allocation of expenses for the year ended December 31, 2018:

	For the Year Ended December 31, 2018		
	Program Services	General and Administrative	Total
Interest on investment certificates	\$ 2,010,414	\$ -	\$ 2,010,414
Salaries and benefits	474,966	695,081	1,170,047
Distributions to others	4,659,998	-	4,659,998
Professional fees	37,985	179,285	217,270
Depreciation	20,377	49,720	70,097
Travel	24,826	26,176	51,002
Office expenses and other	77,274	271,806	349,080
 Total	 \$ 7,305,840	 \$ 1,222,068	 \$ 8,527,908

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, which are allocated on a square footage basis, as well as salaries and benefits, travel, and certain office expenses, which are allocated on the basis of estimates of time and effort.

17. LIQUIDITY AND FUNDS AVAILABLE:

The following table reflects the Organization's financial assets as of December 31, 2019 and 2018, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, assets held for others, assets held in trusts and state required annuity reserves, perpetual and term endowments and accumulated earnings subject to appropriation beyond one year, unfunded portions of line of credit commitments, liquidity reserve limits required for church extension funds, or because the board has set aside funds for specific projects or a long-term investment as board designated endowments. These board designations could be drawn upon if the board approves that action.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

## 17. LIQUIDITY AND FUNDS AVAILABLE, continued:

	December 31,	
	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 1,446,410	\$ 1,676,269
Investments	104,724,669	60,042,919
Interest and other receivables	747,637	831,853
Loans receivable, net	82,039,932	87,179,641
Assets held in trust	20,756,621	19,346,054
Investments held for endowment	39,884,958	33,770,630
Financial assets, at year-end	249,600,227	202,847,366
Less those unavailable for general expenditure within one year, due to:		
Loans receivable collectible beyond one year	(83,035,719)	(86,572,108)
Accounts receivable collectible beyond one year	(362,174)	(362,174)
Investments and other financial assets held for others	(43,526,366)	(36,841,640)
Investments held in trusts and state required annuity reserves	(23,268,149)	(21,588,812)
Investments not convertible to cash within next 12 months	(6,466,853)	(3,726,724)
Perpetual and term endowments and accumulated earnings subject to appropriation beyond one year	(34,103,972)	(28,682,600)
Unfunded line of credit commitments	(4,675,881)	(3,206,562)
Church extension fund required liquidity reserves*	(4,491,997)	(3,881,064)
Donor-imposed purpose restrictions	(228,115)	(103,205)
Investments in board designated endowments	(5,780,986)	(5,088,030)
Board designated for special projects	(53,276)	(39,250)
Financial assets available to meet cash needs for general expenditures within one year	\$ 43,606,739	\$ 12,755,197

\* The North American Securities Administrators Association's statement of policy regarding church extension fund securities states that at the end of its most recent fiscal year as reported in its audited financial statements, the church extension fund's cash, cash equivalents, readily marketable securities and available lines of credit shall have a value of at least 8% of the principal balance of its total outstanding certificates, except that the value of available lines of credit for meeting this standard shall not exceed 2% of the principal balance of its total outstanding certificates.

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

17. LIQUIDITY AND FUNDS AVAILABLE, continued:

The Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Fund also entered into a revolving line of credit agreement with a bank during 2018, allowing for maximum borrowings of \$5,000,000, of which \$0 was outstanding at December 31, 2019 and 2018. Interest on the line of credit is paid monthly at the prime rate plus 0.125% (prime was 5.0% at December 31, 2019). This line of credit is unsecured and expires in July 2020. No funds were borrowed under this agreement during the year ended December 31, 2018. At December 31, 2019 and 2018, the Board had \$2,579,260 and \$2,692,825, respectively, of funds designated for operating reserves that could be drawn upon to meet its general expenditures if the board approved of such action.

18. SUBSEQUENT EVENTS:

In January 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a “Public Health Emergency of International Concern,” which continues to spread throughout the world and has adversely impacted global economic activity and contributed to significant declines and volatility in financial markets, in addition to significant job loss. The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate material adverse impact of the coronavirus outbreak. Nevertheless, the outbreak presents uncertainty and risk with respect to the Organization and its financial results.

Subsequent events have been evaluated through April 28, 2020, which represents the date the consolidated financial statements were available to be issued. Subsequent events after that date have not been evaluated.

## **SUPPLEMENTAL INFORMATION**

**INDEPENDENT AUDITORS' REPORT  
ON SUPPLEMENTAL INFORMATION**

Board of Directors  
Mennonite Brethren Foundation and Affiliate  
Hillsboro, Kansas

We have audited the consolidated financial statements of Mennonite Brethren Foundation and Affiliate as of and for the years ended December 31, 2019 and 2018, and our report thereon dated April 28, 2020, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating statements of financial position and activities are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual organizations, and they are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Capin Crouse LLP*

Naperville, Illinois  
April 28, 2020

# MENNONITE BRETHERN FOUNDATION AND AFFILIATE

## Consolidating Statement of Financial Position December 31, 2019

	Mennonite Brethren Foundation	Mennonite Brethren Loan Fund	Eliminations	Total
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 527,736	\$ 918,674	\$ -	\$ 1,446,410
Investments	102,879,627	36,285,376	(34,440,334)	104,724,669
Interest receivable	-	389,750	-	389,750
Prepaid expenses and other	5,161	363,415	(3,630)	364,946
Loans receivable, net	-	82,039,932	-	82,039,932
Assets held in trust	20,756,621	-	-	20,756,621
Investments held for endowment	39,884,958	-	-	39,884,958
Property and equipment, net	112,084	2,027,315	-	2,139,399
	<u>\$ 164,166,187</u>	<u>\$ 122,024,462</u>	<u>\$ (34,443,964)</u>	<u>\$ 251,746,685</u>
<b>Total Assets</b>	<b>\$ 164,166,187</b>	<b>\$ 122,024,462</b>	<b>\$ (34,443,964)</b>	<b>\$ 251,746,685</b>
<b>LIABILITIES AND NET ASSETS:</b>				
<b>Liabilities:</b>				
Accounts payable and accrued expenses	\$ 383,283	\$ 21,467	\$ (3,630)	\$ 401,120
Earnings payable	39,029	-	-	39,029
Investment certificates	-	109,306,944	(34,440,334)	74,866,610
Trust liability	18,791,934	-	-	18,791,934
Annuities payable	3,184,054	-	-	3,184,054
Funds held for others	43,285,818	-	-	43,285,818
Pension funds held for others	240,548	-	-	240,548
	<u>65,924,666</u>	<u>109,328,411</u>	<u>(34,443,964)</u>	<u>140,809,113</u>
<b>Net assets:</b>				
Net assets without donor restrictions	59,790,226	12,696,051	-	72,486,277
<b>Net assets with donor restrictions:</b>				
Restricted by purpose or time	11,445,637	-	-	11,445,637
Restricted in perpetuity	27,005,658	-	-	27,005,658
	<u>38,451,295</u>	<u>-</u>	<u>-</u>	<u>38,451,295</u>
	<u>98,241,521</u>	<u>12,696,051</u>	<u>-</u>	<u>110,937,572</u>
<b>Total Liabilities and Net Assets</b>	<b>\$ 164,166,187</b>	<b>\$ 122,024,462</b>	<b>\$ (34,443,964)</b>	<b>\$ 251,746,685</b>

See notes to consolidated financial statements

# MENNONITE BRETHREN FOUNDATION AND AFFILIATE

## Consolidating Statement of Activities Year Ended December 31, 2019

	Mennonite Brethren Foundation	Mennonite Brethren Loan Fund	Eliminations	Total
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS:</b>				
Revenues:				
Interest on loans receivable	\$ -	\$ 4,499,180	\$ -	\$ 4,499,180
Contributions	19,089,292	14,738	(325,000)	18,779,030
Annuity contributions received	340,324	-	-	340,324
Fees and other	1,153,610	61,189	-	1,214,799
Investment income	6,144,828	1,133,712	(329,539)	6,949,001
Change in value of charitable gift annuities	848,631	-	-	848,631
Reimbursements from MB Loan Fund	50,551	-	(50,551)	-
	<u>27,627,236</u>	<u>5,708,819</u>	<u>(705,090)</u>	<u>32,630,965</u>
Reclassifications:				
Net assets released from purpose restrictions	1,357,756	-	-	1,357,756
Transfer per donor stipulation	(1,627,513)	-	-	(1,627,513)
	<u>27,357,479</u>	<u>5,708,819</u>	<u>(705,090)</u>	<u>32,361,208</u>
Expenses:				
Program	5,399,174	3,969,780	(705,090)	8,663,864
Management and general	1,056,250	409,304	-	1,465,554
	<u>6,455,424</u>	<u>4,379,084</u>	<u>(705,090)</u>	<u>10,129,418</u>
Change in Net Assets Without Donor Restrictions	<u>20,902,055</u>	<u>1,329,735</u>	<u>-</u>	<u>22,231,790</u>
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS:</b>				
Restricted by purpose or time:				
Contributions	327,360	-	-	327,360
Fees and other	25,128	-	-	25,128
Investment income	4,690,747	-	-	4,690,747
Change in value of deferred gifts	411,420	-	-	411,420
Change in value of charitable trust agreements	255,131	-	-	255,131
Change in value of charitable gift annuities	4,846	-	-	4,846
Net assets released from restrictions	(1,357,756)	-	-	(1,357,756)
Transfer per donor stipulation	(17,482)	-	-	(17,482)
Change in Net Assets Restricted by Purpose or Time	<u>4,339,394</u>	<u>-</u>	<u>-</u>	<u>4,339,394</u>
Restricted in perpetuity:				
Contributions	90,864	-	-	90,864
Investment income	136,804	-	-	136,804
Change in value of charitable gift annuities	5,622	-	-	5,622
Transfer per donor stipulation	1,644,995	-	-	1,644,995
Change in Net Assets Restricted in Perpetuity	<u>1,878,285</u>	<u>-</u>	<u>-</u>	<u>1,878,285</u>
Change in Net Assets	<u>27,119,734</u>	<u>1,329,735</u>	<u>-</u>	<u>28,449,469</u>
Net Assets, Beginning of Year	<u>71,121,787</u>	<u>11,366,316</u>	<u>-</u>	<u>82,488,103</u>
Net Assets, End of Year	<u>\$ 98,241,521</u>	<u>\$ 12,696,051</u>	<u>\$ -</u>	<u>\$ 110,937,572</u>

See notes to consolidated financial statements